

109TH CONGRESS
1ST SESSION

S. 812

To amend the Internal Revenue Code of 1986 to impose a flat tax only on individual taxable earned income and business taxable income, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 15, 2005

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to impose a flat tax only on individual taxable earned income and business taxable income, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS; AMEND-**
4 **MENT OF 1986 CODE.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “Flat Tax Act of 2005”.

7 (b) TABLE OF CONTENTS.—The table of contents for
8 this Act is as follows:

Sec. 1. Short title; table of contents; amendment of 1986 Code.

- Sec. 2. Flat tax on individual taxable earned income and business taxable income.
 Sec. 3. Repeal of estate and gift taxes.
 Sec. 4. Additional repeals.
 Sec. 5. Effective dates.

1 (c) AMENDMENT OF 1986 CODE.—Except as other-
 2 wise expressly provided, whenever in this Act an amend-
 3 ment or repeal is expressed in terms of an amendment
 4 to, or repeal of, a section or other provision, the reference
 5 shall be considered to be made to a section or other provi-
 6 sion of the Internal Revenue Code of 1986.

7 **SEC. 2. FLAT TAX ON INDIVIDUAL TAXABLE EARNED IN-**
 8 **COME AND BUSINESS TAXABLE INCOME.**

9 (a) IN GENERAL.—Subchapter A of chapter 1 of sub-
 10 title A is amended to read as follows:

11 **“Subchapter A—Determination of Tax**
 12 **Liability**

“PART I. TAX ON INDIVIDUALS.

“PART II. TAX ON BUSINESS ACTIVITIES.

13 **“PART I—TAX ON INDIVIDUALS**

- “Sec. 1. Tax imposed.
 “Sec. 2. Standard deduction.
 “Sec. 3. Deduction for cash charitable contributions.
 “Sec. 4. Deduction for home acquisition indebtedness.
 “Sec. 5. Definitions and special rules.
 “Sec. 6. Dependent defined.

14 **“SEC. 1. TAX IMPOSED.**

15 “(a) IMPOSITION OF TAX.—There is hereby imposed
 16 on every individual a tax equal to 20 percent of the taxable
 17 earned income of such individual.

1 “(b) TAXABLE EARNED INCOME.—For purposes of
 2 this section, the term ‘taxable earned income’ means the
 3 excess (if any) of—

4 “(1) the earned income received or accrued dur-
 5 ing the taxable year, over

6 “(2) the sum of—

7 “(A) the standard deduction,

8 “(B) the deduction for cash charitable con-
 9 tributions, and

10 “(C) the deduction for home acquisition in-
 11 debtedness, for such taxable year.

12 “(c) EARNED INCOME.—For purposes of this sec-
 13 tion—

14 “(1) IN GENERAL.—The term ‘earned income’
 15 means wages, salaries, or professional fees, and
 16 other amounts received from sources within the
 17 United States as compensation for personal services
 18 actually rendered, but does not include that part of
 19 compensation derived by the taxpayer for personal
 20 services rendered by the taxpayer to a corporation
 21 which represents a distribution of earnings or profits
 22 rather than a reasonable allowance as compensation
 23 for the personal services actually rendered.

24 “(2) TAXPAYER ENGAGED IN TRADE OR BUSI-
 25 NESS.—In the case of a taxpayer engaged in a trade

1 or business in which both personal services and cap-
 2 ital are material income-producing factors, under
 3 regulations prescribed by the Secretary, a reasonable
 4 allowance as compensation for the personal services
 5 rendered by the taxpayer, not in excess of 30 per-
 6 cent of the taxpayer's share of the net profits of
 7 such trade or business, shall be considered as earned
 8 income.

9 **“SEC. 2. STANDARD DEDUCTION.**

10 “(a) IN GENERAL.—For purposes of this subtitle, the
 11 term ‘standard deduction’ means the sum of—

12 “(1) the basic standard deduction, plus

13 “(2) the additional standard deduction.

14 “(b) BASIC STANDARD DEDUCTION.—For purposes
 15 of subsection (a), the basic standard deduction is—

16 “(1) 200 percent of the dollar amount in effect
 17 under paragraph (3) of the taxable year in the case
 18 of—

19 “(A) a joint return, or

20 “(B) a surviving spouse (as defined in sec-
 21 tion 5(a)),

22 “(2) \$15,000 in the case of a head of household
 23 (as defined in section 5(b)), or

24 “(3) \$10,000 in any other case.

1 “(c) ADDITIONAL STANDARD DEDUCTION.—For pur-
 2 poses of subsection (a), the additional standard deduction
 3 is \$5,000 for each dependent (as defined in section 6)—

4 “(1) whose earned income for the calendar year
 5 in which the taxable year of the taxpayer begins is
 6 less than the basic standard deduction specified in
 7 subsection (b)(3), or

8 “(2) who is a child of the taxpayer and who—

9 “(A) has not attained the age of 19 at the
 10 close of the calendar year in which the taxable
 11 year of the taxpayer begins, or

12 “(B) is a student who has not attained the
 13 age of 24 at the close of such calendar year.

14 “(d) INFLATION ADJUSTMENT.—

15 “(1) IN GENERAL.—In the case of any taxable
 16 year beginning in a calendar year after 2006, each
 17 dollar amount contained in subsections (b) and (c)
 18 shall be increased by an amount equal to—

19 “(A) such dollar amount, multiplied by

20 “(B) the cost-of-living adjustment for the
 21 calendar year in which the taxable year begins.

22 “(2) COST-OF-LIVING ADJUSTMENT.—For pur-
 23 poses of paragraph (1), the cost-of-living adjustment
 24 for any calendar year is the percentage (if any) by
 25 which—

1 “(A) the CPI for the preceding calendar
2 year, exceeds

3 “(B) the CPI for calendar year 2005.

4 “(3) CPI FOR ANY CALENDAR YEAR.—For pur-
5 poses of paragraph (2), the CPI for any calendar
6 year is the average of the Consumer Price Index as
7 of the close of the 12-month period ending on Au-
8 gust 31 of such calendar year.

9 “(4) CONSUMER PRICE INDEX.—For purposes
10 of paragraph (3), the term ‘Consumer Price Index’
11 means the last Consumer Price Index for all-urban
12 consumers published by the Department of Labor.
13 For purposes of the preceding sentence, the revision
14 of the Consumer Price Index which is most con-
15 sistent with the Consumer Price Index for calendar
16 year 1986 shall be used.

17 “(5) ROUNDING.—If any increase determined
18 under paragraph (1) is not a multiple of \$50, such
19 amount shall be rounded to the next lowest multiple
20 of \$50.

21 **“SEC. 3. DEDUCTION FOR CASH CHARITABLE CONTRIBU-**
22 **TIONS.**

23 “(a) GENERAL RULE.—For purposes of this part,
24 there shall be allowed as a deduction any charitable con-
25 tribution (as defined in subsection (b)) not to exceed

1 \$2,500 (\$1,250, in the case of a married individual filing
 2 a separate return), payment of which is made within the
 3 taxable year.

4 “(b) CHARITABLE CONTRIBUTION DEFINED.—For
 5 purposes of this section, the term ‘charitable contribution’
 6 means a contribution or gift of cash or its equivalent to
 7 or for the use of the following:

8 “(1) A State, a possession of the United States,
 9 or any political subdivision of any of the foregoing,
 10 or the United States or the District of Columbia,
 11 but only if the contribution or gift is made for exclu-
 12 sively public purposes.

13 “(2) A corporation, trust, or community chest,
 14 fund, or foundation—

15 “(A) created or organized in the United
 16 States or in any possession thereof, or under
 17 the law of the United States, any State, the
 18 District of Columbia, or any possession of the
 19 United States,

20 “(B) organized and operated exclusively
 21 for religious, charitable, scientific, literary, or
 22 educational purposes, or to foster national or
 23 international amateur sports competition (but
 24 only if no part of its activities involve the provi-

1 sion of athletic facilities or equipment), or for
 2 the prevention of cruelty to children or animals,

3 “(C) no part of the net earnings of which
 4 inures to the benefit of any private shareholder
 5 or individual, and

6 “(D) which is not disqualified for tax ex-
 7emption under section 501(c)(3) by reason of
 8 attempting to influence legislation, and which
 9 does not participate in, or intervene in (includ-
 10 ing the publishing or distributing of state-
 11 ments), any political campaign on behalf of (or
 12 in opposition to) any candidate for public office.

13 A contribution or gift by a corporation to a trust,
 14 chest, fund, or foundation shall be deductible by rea-
 15 son of this paragraph only if it is to be used within
 16 the United States or any of its possessions exclu-
 17 sively for purposes specified in subparagraph (B).

18 Rules similar to the rules of section 501(j) shall
 19 apply for purposes of this paragraph.

20 “(3) A post or organization of war veterans, or
 21 an auxiliary unit or society of, or trust or foundation
 22 for, any such post or organization—

23 “(A) organized in the United States or any
 24 of its possessions, and

1 “(B) no part of the net earnings of which
 2 inures to the benefit of any private shareholder
 3 or individual.

4 “(4) In the case of a contribution or gift by an
 5 individual, a domestic fraternal society, order, or as-
 6 sociation, operating under the lodge system, but only
 7 if such contribution or gift is to be used exclusively
 8 for religious, charitable, scientific, literary, or edu-
 9 cational purposes, or for the prevention of cruelty to
 10 children or animals.

11 “(5) A cemetery company owned and operated
 12 exclusively for the benefit of its members, or any
 13 corporation chartered solely for burial purposes as a
 14 cemetery corporation and not permitted by its char-
 15 ter to engage in any business not necessarily inci-
 16 dent to that purpose, if such company or corporation
 17 is not operated for profit and no part of the net
 18 earnings of such company or corporation inures to
 19 the benefit of any private shareholder or individual.

20 For purposes of this section, the term ‘charitable contribu-
 21 tion’ also means an amount treated under subsection (d)
 22 as paid for the use of an organization described in para-
 23 graph (2), (3), or (4).

24 “(c) DISALLOWANCE OF DEDUCTION IN CERTAIN
 25 CASES AND SPECIAL RULES.—

1 “(1) SUBSTANTIATION REQUIREMENT FOR CER-
2 TAIN CONTRIBUTIONS.—

3 “(A) GENERAL RULE.—No deduction shall
4 be allowed under subsection (a) for any con-
5 tribution of \$250 or more unless the taxpayer
6 substantiates the contribution by a contempora-
7 neous written acknowledgment of the contribu-
8 tion by the donee organization that meets the
9 requirements of subparagraph (B).

10 “(B) CONTENT OF ACKNOWLEDGMENT.—
11 An acknowledgment meets the requirements of
12 this subparagraph if it includes the following
13 information:

14 “(i) The amount of cash contributed.

15 “(ii) Whether the donee organization
16 provided any goods or services in consider-
17 ation, in whole or in part, for any contribu-
18 tion described in clause (i).

19 “(iii) A description and good faith es-
20 timate of the value of any goods or services
21 referred to in clause (ii) or, if such goods
22 or services consist solely of intangible reli-
23 gious benefits, a statement to that effect.

24 For purposes of this subparagraph, the term
25 ‘intangible religious benefit’ means any intan-

1 gible religious benefit which is provided by an
2 organization organized exclusively for religious
3 purposes and which generally is not sold in a
4 commercial transaction outside the donative
5 context.

6 “(C) CONTEMPORANEOUS.—For purposes
7 of subparagraph (A), an acknowledgment shall
8 be considered to be contemporaneous if the tax-
9 payer obtains the acknowledgment on or before
10 the earlier of—

11 “(i) the date on which the taxpayer
12 files a return for the taxable year in which
13 the contribution was made, or

14 “(ii) the due date (including exten-
15 sions) for filing such return.

16 “(D) SUBSTANTIATION NOT REQUIRED
17 FOR CONTRIBUTIONS REPORTED BY THE
18 DONEE ORGANIZATION.—Subparagraph (A)
19 shall not apply to a contribution if the donee
20 organization files a return, on such form and in
21 accordance with such regulations as the Sec-
22 retary may prescribe, which includes the infor-
23 mation described in subparagraph (B) with re-
24 spect to the contribution.

1 “(E) REGULATIONS.—The Secretary shall
 2 prescribe such regulations as may be necessary
 3 or appropriate to carry out the purposes of this
 4 paragraph, including regulations that may pro-
 5 vide that some or all of the requirements of this
 6 paragraph do not apply in appropriate cases.

7 “(2) DENIAL OF DEDUCTION WHERE CON-
 8 TRIBUTION FOR LOBBYING ACTIVITIES.—No deduc-
 9 tion shall be allowed under this section for a con-
 10 tribution to an organization which conducts activities
 11 to which section 11(d)(2)(C)(i) applies on matters of
 12 direct financial interest to the donor’s trade or busi-
 13 ness, if a principal purpose of the contribution was
 14 to avoid Federal income tax by securing a deduction
 15 for such activities under this section which would be
 16 disallowed by reason of section 11(d)(2)(C) if the
 17 donor had conducted such activities directly. No de-
 18 duction shall be allowed under section 11(d) for any
 19 amount for which a deduction is disallowed under
 20 the preceding sentence.

21 “(d) AMOUNTS PAID TO MAINTAIN CERTAIN STU-
 22 DENTS AS MEMBERS OF TAXPAYER’S HOUSEHOLD.—

23 “(1) IN GENERAL.—Subject to the limitations
 24 provided by paragraph (2), amounts paid by the tax-
 25 payer to maintain an individual (other than a de-

pendent, as defined in section 6, or a relative of the taxpayer) as a member of such taxpayer's household during the period that such individual is—

“(A) a member of the taxpayer's household under a written agreement between the taxpayer and an organization described in paragraph (2), (3), or (4) of subsection (b) to implement a program of the organization to provide educational opportunities for pupils or students in private homes, and

“(B) a full-time pupil or student in the twelfth or any lower grade at an educational organization located in the United States which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on, shall be treated as amounts paid for the use of the organization.

“(2) LIMITATIONS.—

“(A) AMOUNT.—Paragraph (1) shall apply to amounts paid within the taxable year only to the extent that such amounts do not exceed \$50 multiplied by the number of full calendar months during the taxable year which fall with-

1 in the period described in paragraph (1). For
2 purposes of the preceding sentence, if 15 or
3 more days of a calendar month fall within such
4 period such month shall be considered as a full
5 calendar month.

6 “(B) COMPENSATION OR REIMBURSE-
7 MENT.—Paragraph (1) shall not apply to any
8 amount paid by the taxpayer within the taxable
9 year if the taxpayer receives any money or
10 other property as compensation or reimburse-
11 ment for maintaining the individual in the tax-
12 payer’s household during the period described
13 in paragraph (1).

14 “(3) RELATIVE DEFINED.—For purposes of
15 paragraph (1), the term ‘relative of the taxpayer’
16 means an individual who, with respect to the tax-
17 payer, bears any of the relationships described in
18 subparagraphs (A) through (G) of section 6(d)(2).

19 “(4) NO OTHER AMOUNT ALLOWED AS DEDUC-
20 TION.—No deduction shall be allowed under sub-
21 section (a) for any amount paid by a taxpayer to
22 maintain an individual as a member of the tax-
23 payer’s household under a program described in
24 paragraph (1)(A) except as provided in this sub-
25 section.

1 “(e) DENIAL OF DEDUCTION FOR CERTAIN TRAVEL
 2 EXPENSES.—No deduction shall be allowed under this sec-
 3 tion for traveling expenses (including amounts expended
 4 for meals and lodging) while away from home, whether
 5 paid directly or by reimbursement, unless there is no sig-
 6 nificant element of personal pleasure, recreation, or vaca-
 7 tion in such travel.

8 “(f) DISALLOWANCE OF DEDUCTIONS IN CERTAIN
 9 CASES.—For disallowance of deductions for contributions
 10 to or for the use of Communist controlled organizations,
 11 see section 11(a) of the Internal Security Act of 1950 (50
 12 U.S.C. 790).

13 “(g) TREATMENT OF CERTAIN AMOUNTS PAID TO OR
 14 FOR THE BENEFIT OF INSTITUTIONS OF HIGHER EDU-
 15 CATION.—

16 “(1) IN GENERAL.—For purposes of this sec-
 17 tion, 80 percent of any amount described in para-
 18 graph (2) shall be treated as a charitable contribu-
 19 tion.

20 “(2) AMOUNT DESCRIBED.—For purposes of
 21 paragraph (1), an amount is described in this para-
 22 graph if—

23 “(A) the amount is paid by the taxpayer to
 24 or for the benefit of an educational organiza-
 25 tion—

1 “(i) which is described in subsection
2 (d)(1)(B), and

3 “(ii) which is an institution of higher
4 education (as defined in section 3304(f)),
5 and

6 “(B) such amount would be allowable as a
7 deduction under this section but for the fact
8 that the taxpayer receives (directly or indi-
9 rectly) as a result of paying such amount the
10 right to purchase tickets for seating at an ath-
11 letic event in an athletic stadium of such insti-
12 tution.

13 If any portion of a payment is for the purchase of such
14 tickets, such portion and the remaining portion (if any)
15 of such payment shall be treated as separate amounts for
16 purposes of this subsection.

17 “(h) OTHER CROSS REFERENCES.—

18 “(1) For treatment of certain organizations
19 providing child care, see section 501(k).

20 “(2) For charitable contributions of partners,
21 see section 702.

22 “(3) For treatment of gifts for benefit of or use
23 in connection with the Naval Academy as gifts to or
24 for the use of the United States, see section 6973
25 of title 10, United States Code.

1 “(4) For treatment of gifts accepted by the
 2 Secretary of State, the Director of the International
 3 Communication Agency, or the Director of the
 4 United States International Development Coopera-
 5 tion Agency, as gifts to or for the use of the United
 6 States, see section 25 of the State Department Basic
 7 Authorities Act of 1956.

8 “(5) For treatment of gifts of money accepted
 9 by the Attorney General for credit to the ‘Com-
 10 missary Funds, Federal Prisons’ as gifts to or for
 11 the use of the United States, see section 4043 of
 12 title 18, United States Code.

13 “(6) For charitable contributions to or for the
 14 use of Indian tribal governments (or subdivisions of
 15 such governments), see section 7871.

16 **“SEC. 4. DEDUCTION FOR HOME ACQUISITION INDEBTED-**
 17 **NESS.**

18 “(a) GENERAL RULE.—For purposes of this part,
 19 there shall be allowed as a deduction all qualified residence
 20 interest paid or accrued within the taxable year.

21 “(b) QUALIFIED RESIDENCE INTEREST DEFINED.—
 22 The term ‘qualified residence interest’ means any interest
 23 which is paid or accrued during the taxable year on acqui-
 24 sition indebtedness with respect to any qualified residence
 25 of the taxpayer. For purposes of the preceding sentence,

1 the determination of whether any property is a qualified
 2 residence of the taxpayer shall be made as of the time
 3 the interest is accrued.

4 “(c) ACQUISITION INDEBTEDNESS.—

5 “(1) IN GENERAL.—The term ‘acquisition in-
 6 debtedness’ means any indebtedness which—

7 “(A) is incurred in acquiring, constructing,
 8 or substantially improving any qualified resi-
 9 dence of the taxpayer, and

10 “(B) is secured by such residence.

11 Such term also includes any indebtedness secured by such
 12 residence resulting from the refinancing of indebtedness
 13 meeting the requirements of the preceding sentence (or
 14 this sentence); but only to the extent the amount of the
 15 indebtedness resulting from such refinancing does not ex-
 16 ceed the amount of the refinanced indebtedness.

17 “(2) \$100,000 limitation.—The aggregate
 18 amount treated as acquisition indebtedness for any
 19 period shall not exceed \$100,000 (\$50,000 in the
 20 case of a married individual filing a separate re-
 21 turn).

22 “(d) TREATMENT OF INDEBTEDNESS INCURRED ON
 23 OR BEFORE OCTOBER 13, 1987.—

24 “(1) IN GENERAL.—In the case of any pre-Oc-
 25 tober 13, 1987, indebtedness—

1 “(A) such indebtedness shall be treated as
2 acquisition indebtedness, and

3 “(B) the limitation of subsection (c)(2)
4 shall not apply.

5 “(2) REDUCTION IN \$100,000 LIMITATION.—The
6 limitation of subsection (c)(2) shall be reduced (but
7 not below zero) by the aggregate amount of out-
8 standing pre-October 13, 1987, indebtedness.

9 “(3) PRE-OCTOBER 13, 1987, INDEBTEDNESS.—
10 The term ‘pre-October 13, 1987, indebtedness’
11 means—

12 “(A) any indebtedness which was incurred
13 on or before October 13, 1987, and which was
14 secured by a qualified residence on October 13,
15 1987, and at all times thereafter before the in-
16 terest is paid or accrued, or

17 “(B) any indebtedness which is secured by
18 the qualified residence and was incurred after
19 October 13, 1987, to refinance indebtedness de-
20 scribed in subparagraph (A) (or refinanced in-
21 debtedness meeting the requirements of this
22 subparagraph) to the extent (immediately after
23 the refinancing) the principal amount of the in-
24 debtedness resulting from the refinancing does
25 not exceed the principal amount of the refi-

1 nanced indebtedness (immediately before the re-
2 financing).

3 “(4) LIMITATION ON PERIOD OF REFI-
4 NANCING.—Subparagraph (B) of paragraph (3)
5 shall not apply to any indebtedness after—

6 “(A) the expiration of the term of the in-
7 debtedness described in paragraph (3)(A), or

8 “(B) if the principal of the indebtedness
9 described in paragraph (3)(A) is not amortized
10 over its term, the expiration of the term of the
11 first refinancing of such indebtedness (or if ear-
12 lier, the date which is 30 years after the date
13 of such first refinancing).

14 “(e) OTHER DEFINITIONS AND SPECIAL RULES.—
15 For purposes of this section—

16 “(1) QUALIFIED RESIDENCE.—For purposes of
17 this subsection—

18 “(A) IN GENERAL.—Except as provided in
19 subparagraph (C), the term ‘qualified residence’
20 means the principal residence of the taxpayer.

21 “(B) MARRIED INDIVIDUALS FILING SEPA-
22 RATE RETURNS.—If a married couple does not
23 file a joint return for the taxable year—

1 “(i) such couple shall be treated as 1
 2 taxpayer for purposes of subparagraph
 3 (A), and

4 “(ii) each individual shall be entitled
 5 to take into account $\frac{1}{2}$ of the principal
 6 residence unless both individuals consent
 7 in writing to 1 individual taking into ac-
 8 count the principal residence.

9 “(C) PRE-OCTOBER 13, 1987, INDEBTED-
 10 NESS.—In the case of any pre-October 13,
 11 1987, indebtedness, the term ‘qualified resi-
 12 dence’ has the meaning given that term in sec-
 13 tion 163(h)(4), as in effect on the day before
 14 the date of enactment of this subparagraph.

15 “(2) SPECIAL RULE FOR COOPERATIVE HOUS-
 16 ING CORPORATIONS.—Any indebtedness secured by
 17 stock held by the taxpayer as a tenant-stockholder in
 18 a cooperative housing corporation shall be treated as
 19 secured by the house or apartment which the tax-
 20 payer is entitled to occupy as such a tenant-stock-
 21 holder. If stock described in the preceding sentence
 22 may not be used to secure indebtedness, indebted-
 23 ness shall be treated as so secured if the taxpayer
 24 establishes to the satisfaction of the Secretary that

1 such indebtedness was incurred to acquire such
2 stock.

3 “(3) UNENFORCEABLE SECURITY INTERESTS.—
4 Indebtedness shall not fail to be treated as secured
5 by any property solely because, under any applicable
6 State or local homestead or other debtor protection
7 law in effect on August 16, 1986, the security inter-
8 est is ineffective or the enforceability of the security
9 interest is restricted.

10 “(4) SPECIAL RULES FOR ESTATES AND
11 TRUSTS.—For purposes of determining whether any
12 interest paid or accrued by an estate or trust is
13 qualified residence interest, any residence held by
14 such estate or trust shall be treated as a qualified
15 residence of such estate or trust if such estate or
16 trust establishes that such residence is a qualified
17 residence of a beneficiary who has a present interest
18 in such estate or trust or an interest in the resid-
19 uary of such estate or trust.

20 **“SEC. 5. DEFINITIONS AND SPECIAL RULES.**

21 “(a) DEFINITION OF SURVIVING SPOUSE.—

22 “(1) IN GENERAL.—For purposes of this part,
23 the term ‘surviving spouse’ means a taxpayer—

1 “(A) whose spouse died during either of
 2 the taxpayer’s 2 taxable years immediately pre-
 3 ceding the taxable year, and

4 “(B) who maintains as the taxpayer’s
 5 home a household which constitutes for the tax-
 6 able year the principal place of abode (as a
 7 member of such household) of a dependent—

8 “(i) who (within the meaning of sec-
 9 tion 6, determined without regard to sub-
 10 sections (b)(1), (b)(2), and (d)(1)(B)) is a
 11 son, stepson, daughter, or stepdaughter of
 12 the taxpayer, and

13 “(ii) with respect to whom the tax-
 14 payer is entitled to a deduction for the tax-
 15 able year under section 2.

16 For purposes of this paragraph, an individual shall
 17 be considered as maintaining a household only if
 18 over one-half of the cost of maintaining the house-
 19 hold during the taxable year is furnished by such in-
 20 dividual.

21 “(2) LIMITATIONS.—Notwithstanding para-
 22 graph (1), for purposes of this part a taxpayer shall
 23 not be considered to be a surviving spouse—

24 “(A) if the taxpayer has remarried at any
 25 time before the close of the taxable year, or

1 “(B) unless, for the taxpayer’s taxable
2 year during which the taxpayer’s spouse died, a
3 joint return could have been made under the
4 provisions of section 6013 (without regard to
5 subsection (a)(3) thereof).

6 “(3) SPECIAL RULE WHERE DECEASED SPOUSE
7 WAS IN MISSING STATUS.—If an individual was in a
8 missing status (within the meaning of section
9 6013(f)(3)) as a result of service in a combat zone
10 and if such individual remains in such status until
11 the date referred to in subparagraph (A) or (B),
12 then, for purposes of paragraph (1)(A), the date on
13 which such individual dies shall be treated as the
14 earlier of the date determined under subparagraph
15 (A) or the date determined under subparagraph (B):

16 “(A) The date on which the determination
17 is made under section 556 of title 37 of the
18 United States Code or under section 5566 of
19 title 5 of such Code (whichever is applicable)
20 that such individual died while in such missing
21 status.

22 “(B) Except in the case of the combat
23 zone designated for purposes of the Vietnam
24 conflict, the date which is 2 years after the date

1 designated as the date of termination of com-
 2 batant activities in that zone.

3 “(b) DEFINITION OF HEAD OF HOUSEHOLD.—

4 “(1) IN GENERAL.—For purposes of this part,
 5 an individual shall be considered a head of a house-
 6 hold if, and only if, such individual is not married
 7 at the close of such individual’s taxable year, is not
 8 a surviving spouse (as defined in subsection (a)),
 9 and either—

10 “(A) maintains as such individual’s home a
 11 household which constitutes for more than one-
 12 half of such taxable year the principal place of
 13 abode, as a member of such household, of—

14 “(i) a qualifying child of the indi-
 15 vidual (as defined in section 6(c), deter-
 16 mined without regard to section 6(e)), but
 17 not if such child—

18 “(I) is married at the close of the
 19 taxpayer’s taxable year, and

20 “(II) is not a dependent of such
 21 individual by reason of section 6(b)(2)
 22 or 6(b)(3), or both, or

23 “(ii) any other person who is a de-
 24 pendent of the taxpayer, if the taxpayer is

1 entitled to a deduction for the taxable year
2 for such person under section 2, or

3 “(B) maintains a household which con-
4 stitutes for such taxable year the principal place
5 of abode of the father or mother of the tax-
6 payer, if the taxpayer is entitled to a deduction
7 for the taxable year for such father or mother
8 under section 2.

9 For purposes of this paragraph, an individual shall
10 be considered as maintaining a household only if
11 over one-half of the cost of maintaining the house-
12 hold during the taxable year is furnished by such in-
13 dividual.

14 “(2) DETERMINATION OF STATUS.—For pur-
15 poses of this subsection—

16 “(A) an individual who is legally separated
17 from such individual’s spouse under a decree of
18 divorce or of separate maintenance shall not be
19 considered as married,

20 “(B) a taxpayer shall be considered as not
21 married at the close of such taxpayer’s taxable
22 year if at any time during the taxable year such
23 taxpayer’s spouse is a nonresident alien, and

24 “(C) a taxpayer shall be considered as
25 married at the close of such taxpayer’s taxable

1 year if such taxpayer's spouse (other than a
2 spouse described in subparagraph (B)) died
3 during the taxable year.

4 “(3) LIMITATIONS.—Notwithstanding para-
5 graph (1), for purposes of this part, a taxpayer shall
6 not be considered to be a head of a household—

7 “(A) if at any time during the taxable year
8 the taxpayer is a nonresident alien, or

9 “(B) by reason of an individual who would
10 not be a dependent for the taxable year but
11 for—

12 “(i) subparagraph (H) of section
13 6(d)(2), or

14 “(ii) paragraph (3) of section 6(d).

15 “(c) CERTAIN MARRIED INDIVIDUALS LIVING
16 APART.—For purposes of this part, an individual shall be
17 treated as not married at the close of the taxable year
18 if such individual is so treated under the provisions of sec-
19 tion 7703(b).

20 **“SEC. 6. DEPENDENT DEFINED.**

21 “(a) IN GENERAL.—For purposes of this subtitle, the
22 term ‘dependent’ means—

23 “(1) a qualifying child, or

24 “(2) a qualifying relative.

25 “(b) EXCEPTIONS.—For purposes of this section—

1 “(1) DEPENDENTS INELIGIBLE.—If an indi-
 2 vidual is a dependent of a taxpayer for any taxable
 3 year of such taxpayer beginning in a calendar year,
 4 such individual shall be treated as having no depend-
 5 ents for any taxable year of such individual begin-
 6 ning in such calendar year.

7 “(2) MARRIED DEPENDENTS.—An individual
 8 shall not be treated as a dependent of a taxpayer
 9 under subsection (a) if such individual has made a
 10 joint return with the individual’s spouse under sec-
 11 tion 6013 for the taxable year beginning in the cal-
 12 endar year in which the taxable year of the taxpayer
 13 begins.

14 “(3) CITIZENS OR NATIONALS OF OTHER COUN-
 15 TRIES.—

16 “(A) IN GENERAL.—The term ‘dependent’
 17 does not include an individual who is not a cit-
 18 izen or national of the United States unless
 19 such individual is a resident of the United
 20 States or a country contiguous to the United
 21 States.

22 “(B) EXCEPTION FOR ADOPTED CHILD.—
 23 Subparagraph (A) shall not exclude any child of
 24 a taxpayer (within the meaning of subsection

1 (f)(1)(B)) from the definition of ‘dependent’
2 if—

3 “(i) for the taxable year of the tax-
4 payer, the child has the same principal
5 place of abode as the taxpayer and is a
6 member of the taxpayer’s household, and

7 “(ii) the taxpayer is a citizen or na-
8 tional of the United States.

9 “(c) QUALIFYING CHILD.—For purposes of this sec-
10 tion—

11 “(1) IN GENERAL.—The term ‘qualifying child’
12 means, with respect to any taxpayer for any taxable
13 year, an individual—

14 “(A) who bears a relationship to the tax-
15 payer described in paragraph (2),

16 “(B) who has the same principal place of
17 abode as the taxpayer for more than one-half of
18 such taxable year,

19 “(C) who meets the age requirements of
20 paragraph (3), and

21 “(D) who has not provided over one-half of
22 such individual’s own support for the calendar
23 year in which the taxable year of the taxpayer
24 begins.

1 “(2) RELATIONSHIP.—For purposes of para-
 2 graph (1)(A), an individual bears a relationship to
 3 the taxpayer described in this paragraph if such in-
 4 dividual is—

5 “(A) a child of the taxpayer or a descend-
 6 ant of such a child, or

7 “(B) a brother, sister, stepbrother, or step-
 8 sister of the taxpayer or a descendant of any
 9 such relative.

10 “(3) AGE REQUIREMENTS.—

11 “(A) IN GENERAL.—For purposes of para-
 12 graph (1)(C), an individual meets the require-
 13 ments of this paragraph if such individual—

14 “(i) has not attained the age of 19 as
 15 of the close of the calendar year in which
 16 the taxable year of the taxpayer begins, or

17 “(ii) is a student who has not attained
 18 the age of 24 as of the close of such cal-
 19 endar year.

20 “(B) SPECIAL RULE FOR DISABLED.—In
 21 the case of an individual who is permanently
 22 and totally disabled at any time during such
 23 calendar year, the requirements of subpara-
 24 graph (A) shall be treated as met with respect
 25 to such individual.

1 “(4) SPECIAL RULE RELATING TO 2 OR MORE
2 CLAIMING QUALIFYING CHILD.—

3 “(A) IN GENERAL.—Except as provided in
4 subparagraph (B), if (but for this paragraph)
5 an individual may be and is claimed as a quali-
6 fying child by 2 or more taxpayers for a taxable
7 year beginning in the same calendar year, such
8 individual shall be treated as the qualifying
9 child of the taxpayer who is—

10 “(i) a parent of the individual, or

11 “(ii) if clause (i) does not apply, the
12 taxpayer with the highest adjusted gross
13 income for such taxable year.

14 “(B) MORE THAN 1 PARENT CLAIMING
15 QUALIFYING CHILD.—If the parents claiming
16 any qualifying child do not file a joint return
17 together, such child shall be treated as the
18 qualifying child of—

19 “(i) the parent with whom the child
20 resided for the longest period of time dur-
21 ing the taxable year, or

22 “(ii) if the child resides with both par-
23 ents for the same amount of time during
24 such taxable year, the parent with the
25 highest adjusted gross income.

1 “(d) QUALIFYING RELATIVE.—For purposes of this
2 section—

3 “(1) IN GENERAL.—The term ‘qualifying rel-
4 ative’ means, with respect to any taxpayer for any
5 taxable year, an individual—

6 “(A) who bears a relationship to the tax-
7 payer described in paragraph (2),

8 “(B) with respect to whom the taxpayer
9 provides over one-half of the individual’s sup-
10 port for the calendar year in which such taxable
11 year begins, and

12 “(C) who is not a qualifying child of such
13 taxpayer or of any other taxpayer for any tax-
14 able year beginning in the calendar year in
15 which such taxable year begins.

16 “(2) RELATIONSHIP.—For purposes of para-
17 graph (1)(A), an individual bears a relationship to
18 the taxpayer described in this paragraph if the indi-
19 vidual is any of the following with respect to the tax-
20 payer:

21 “(A) A child or a descendant of a child.

22 “(B) A brother, sister, stepbrother, or
23 stepsister.

24 “(C) The father or mother, or an ancestor
25 of either.

1 “(D) A stepfather or stepmother.

2 “(E) A son or daughter of a brother or sis-
3 ter of the taxpayer.

4 “(F) A brother or sister of the father or
5 mother of the taxpayer.

6 “(G) A son-in-law, daughter-in-law, father-
7 in-law, mother-in-law, brother-in-law, or sister-
8 in-law.

9 “(H) An individual (other than an indi-
10 vidual who at any time during the taxable year
11 was the spouse, determined without regard to
12 section 7703, of the taxpayer) who, for the tax-
13 able year of the taxpayer, has the same prin-
14 cipal place of abode as the taxpayer and is a
15 member of the taxpayer’s household.

16 “(3) SPECIAL RULE RELATING TO MULTIPLE
17 SUPPORT AGREEMENTS.—For purposes of paragraph
18 (1)(C), over one-half of the support of an individual
19 for a calendar year shall be treated as received from
20 the taxpayer if—

21 “(A) no one person contributed over one-
22 half of such support,

23 “(B) over one-half of such support was re-
24 ceived from 2 or more persons each of whom,
25 but for the fact that any such person alone did

1 not contribute over one-half of such support,
 2 would have been entitled to claim such indi-
 3 vidual as a dependent for a taxable year begin-
 4 ning in such calendar year,

5 “(C) the taxpayer contributed over 10 per-
 6 cent of such support, and

7 “(D) each person described in subpara-
 8 graph (B) (other than the taxpayer) who con-
 9 tributed over 10 percent of such support files a
 10 written declaration (in such manner and form
 11 as the Secretary may by regulations prescribe)
 12 that such person will not claim such individual
 13 as a dependent for any taxable year beginning
 14 in such calendar year.

15 “(4) SPECIAL RULE RELATING TO INCOME OF
 16 HANDICAPPED DEPENDENTS.—

17 “(A) IN GENERAL.—For purposes of para-
 18 graph (1)(B), the gross income of an individual
 19 who is permanently and totally disabled at any
 20 time during the taxable year shall not include
 21 income attributable to services performed by the
 22 individual at a sheltered workshop if—

23 “(i) the availability of medical care at
 24 such workshop is the principal reason for
 25 the individual’s presence there, and

1 “(ii) the income arises solely from ac-
 2 tivities at such workshop which are inci-
 3 dent to such medical care.

4 “(B) SHELTERED WORKSHOP DEFINED.—
 5 For purposes of subparagraph (A), the term
 6 ‘sheltered workshop’ means a school—

7 “(i) which provides special instruction
 8 or training designed to alleviate the dis-
 9 ability of the individual, and

10 “(ii) which is operated by an organi-
 11 zation described in section 501(c)(3) and
 12 exempt from tax under section 501(a), or
 13 by a State, a possession of the United
 14 States, any political subdivision of any of
 15 the foregoing, the United States, or the
 16 District of Columbia.

17 “(5) SPECIAL RULES FOR SUPPORT.—For pur-
 18 poses of this subsection—

19 “(A) payments to a spouse which are in-
 20 cludible in the gross income of such spouse
 21 shall not be treated as a payment by the payor
 22 spouse for the support of any dependent, and

23 “(B) in the case of the remarriage of a
 24 parent, support of a child received from the

1 parent's spouse shall be treated as received
2 from the parent.

3 “(e) SPECIAL RULE FOR DIVORCED PARENTS.—

4 “(1) IN GENERAL.—Notwithstanding subsection
5 (c)(1)(B), (c)(4), or (d)(1)(C), if—

6 “(A) a child receives over one-half of the
7 child's support during the calendar year from
8 the child's parents—

9 “(i) who are divorced or legally sepa-
10 rated under a decree of divorce or separate
11 maintenance,

12 “(ii) who are separated under a writ-
13 ten separation agreement, or

14 “(iii) who live apart at all times dur-
15 ing the last 6 months of the calendar year,
16 and

17 “(B) such child is in the custody of 1 or
18 both of the child's parents for more than one-
19 half of the calendar year, such child shall be
20 treated as being the qualifying child or quali-
21 fying relative of the noncustodial parent for a
22 calendar year if the requirements described in
23 paragraph (2) are met.

1 “(2) REQUIREMENTS.—For purposes of para-
2 graph (1), the requirements described in this para-
3 graph are met if—

4 “(A) a decree of divorce or separate main-
5 tenance or written separation agreement be-
6 tween the parents applicable to the taxable year
7 beginning in such calendar year provides that
8 the noncustodial parent shall be entitled to any
9 deduction allowable under section 2 for such
10 child, and in the case of such a decree or agree-
11 ment executed before January 1, 1985, the
12 noncustodial parent provides at least \$600 for
13 the support of such child during such calendar
14 year, or

15 “(B) the custodial parent signs a written
16 declaration (in such manner and form as the
17 Secretary may prescribe) that such parent will
18 not claim such child as a dependent for such
19 taxable year.

20 For purposes of subparagraph (A), amounts ex-
21 pended for the support of a child or children shall
22 be treated as received from the noncustodial parent
23 to the extent that such parent provided amounts for
24 such support.

1 “(3) CUSTODIAL PARENT AND NONCUSTODIAL
2 PARENT.—For purposes of this subsection—

3 “(A) CUSTODIAL PARENT.—The term ‘cus-
4 todial parent’ means the parent with whom a
5 child shared the same principal place of abode
6 for the greater portion of the calendar year.

7 “(B) NONCUSTODIAL PARENT.—The term
8 ‘noncustodial parent’ means the parent who is
9 not the custodial parent.

10 “(4) EXCEPTION FOR MULTIPLE-SUPPORT
11 AGREEMENTS.—This subsection shall not apply in
12 any case where over one-half of the support of the
13 child is treated as having been received from a tax-
14 payer under the provision of subsection (d)(3).

15 “(f) OTHER DEFINITIONS AND RULES.—For pur-
16 poses of this section—

17 “(1) CHILD DEFINED.—

18 “(A) IN GENERAL.—The term ‘child’
19 means an individual who is—

20 “(i) a son, daughter, stepson, or step-
21 daughter of the taxpayer, or

22 “(ii) an eligible foster child of the tax-
23 payer.

24 “(B) ADOPTED CHILD.—In determining
25 whether any of the relationships specified in

1 subparagraph (A)(i) or paragraph (4) exists, a
 2 legally adopted individual of the taxpayer, or an
 3 individual who is lawfully placed with the tax-
 4 payer for legal adoption by the taxpayer, shall
 5 be treated as a child of such individual by
 6 blood.

7 “(C) ELIGIBLE FOSTER CHILD.—For pur-
 8 poses of subparagraph (A)(ii), the term ‘eligible
 9 foster child’ means an individual who is placed
 10 with the taxpayer by an authorized placement
 11 agency or by judgment, decree, or other order
 12 of any court of competent jurisdiction.

13 “(2) STUDENT DEFINED.—The term ‘student’
 14 means an individual who during each of 5 calendar
 15 months during the calendar year in which the tax-
 16 able year of the taxpayer begins—

17 “(A) is a full-time student at an edu-
 18 cational organization described in section
 19 3(d)(1)(B), or

20 “(B) is pursuing a full-time course of insti-
 21 tutional on-farm training under the supervision
 22 of an accredited agent of an educational organi-
 23 zation described in section 3(d)(1)(B) or of a
 24 State or political subdivision of a State.

1 “(3) DETERMINATION OF HOUSEHOLD STA-
 2 TUS.—An individual shall not be treated as a mem-
 3 ber of the taxpayer’s household if at any time during
 4 the taxable year of the taxpayer the relationship be-
 5 tween such individual and the taxpayer is in viola-
 6 tion of local law.

7 “(4) BROTHER AND SISTER.—The terms
 8 ‘brother’ and ‘sister’ include a brother or sister by
 9 the half blood.

10 “(5) SPECIAL SUPPORT TEST IN CASE OF STU-
 11 DENTS.—For purposes of subsections (c)(1)(D) and
 12 (d)(1)(C), in the case of an individual who is—

13 “(A) a child of the taxpayer, and

14 “(B) a student, amounts received as schol-
 15 arships for study at an educational organization
 16 described in section 3(d)(1)(B) shall not be
 17 taken into account.

18 “(6) TREATMENT OF MISSING CHILDREN.—

19 “(A) IN GENERAL.—Solely for the pur-
 20 poses referred to in subparagraph (B), a child
 21 of the taxpayer—

22 “(i) who is presumed by law enforce-
 23 ment authorities to have been kidnapped
 24 by someone who is not a member of the
 25 family of such child or the taxpayer, and

1 “(ii) who had, for the taxable year in
 2 which the kidnapping occurred, the same
 3 principal place of abode as the taxpayer for
 4 more than one-half of the portion of such
 5 year before the date of the kidnapping,
 6 shall be treated as meeting the require-
 7 ment of subsection (c)(1)(B) with respect
 8 to a taxpayer for all taxable years ending
 9 during the period that the child is kid-
 10 napped.

11 “(B) PURPOSES.—Subparagraph (A) shall
 12 apply solely for purposes of determining—

13 “(i) the deduction under section 2(c),
 14 and

15 “(ii) whether an individual is a sur-
 16 viving spouse or a head of a household (as
 17 such terms are defined in section 5).

18 “(C) COMPARABLE TREATMENT OF CER-
 19 TAIN QUALIFYING RELATIVES.—For purposes
 20 of this section, a child of the taxpayer—

21 “(i) who is presumed by law enforce-
 22 ment authorities to have been kidnapped
 23 by someone who is not a member of the
 24 family of such child or the taxpayer, and

1 “(ii) who was (without regard to this
 2 paragraph) a qualifying relative of the tax-
 3 payer for the portion of the taxable year
 4 before the date of the kidnapping, shall be
 5 treated as a qualifying relative of the tax-
 6 payer for all taxable years ending during
 7 the period that the child is kidnapped.

8 “(D) TERMINATION OF TREATMENT.—
 9 Subparagraphs (A) and (C) shall cease to apply
 10 as of the first taxable year of the taxpayer be-
 11 ginning after the calendar year in which there
 12 is a determination that the child is dead (or, if
 13 earlier, in which the child would have attained
 14 age 18).

15 **“PART II—TAX ON BUSINESS ACTIVITIES**

 “Sec. 11. Tax imposed on business activities.

16 **“SEC. 11. TAX IMPOSED ON BUSINESS ACTIVITIES.**

17 “(a) TAX IMPOSED.—There is hereby imposed on
 18 every person engaged in a business activity located in the
 19 United States a tax equal to 20 percent of the business
 20 taxable income of such person.

21 “(b) LIABILITY FOR TAX.—The tax imposed by this
 22 section shall be paid by the person engaged in the business
 23 activity, whether such person is an individual, partnership,
 24 corporation, or otherwise.

1 “(c) BUSINESS TAXABLE INCOME.—

2 “(1) IN GENERAL.—For purposes of this sec-
 3 tion, the term ‘business taxable income’ means gross
 4 active income reduced by the deductions specified in
 5 subsection (d).

6 “(2) GROSS ACTIVE INCOME.—For purposes of
 7 paragraph (1), the term ‘gross active income’ means
 8 gross income other than investment income.

9 “(d) DEDUCTIONS.—

10 “(1) IN GENERAL.—The deductions specified in
 11 this subsection are—

12 “(A) the cost of business inputs for the
 13 business activity,

14 “(B) the compensation (including contribu-
 15 tions to qualified retirement plans but not in-
 16 cluding other fringe benefits) paid for employ-
 17 ees performing services in such activity, and

18 “(C) the cost of personal and real property
 19 used in such activity.

20 “(2) BUSINESS INPUTS.—

21 “(A) IN GENERAL.—For purposes of para-
 22 graph (1)(A), the term ‘cost of business inputs’
 23 means—

1 “(i) the actual cost of goods, services,
 2 and materials, whether or not resold dur-
 3 ing the taxable year, and

4 “(ii) the actual cost, if reasonable, of
 5 travel and entertainment expenses for busi-
 6 ness purposes.

7 “(B) PURCHASES OF GOODS AND SERV-
 8 ICES EXCLUDED.—Such term shall not include
 9 purchases of goods and services provided to em-
 10 ployees or owners.

11 “(C) CERTAIN LOBBYING AND POLITICAL
 12 EXPENDITURES EXCLUDED.—

13 “(i) IN GENERAL.—Such term shall
 14 not include any amount paid or incurred in
 15 connection with—

16 “(I) influencing legislation,

17 “(II) participation in, or inter-
 18 vention in, any political campaign on
 19 behalf of (or in opposition to) any
 20 candidate for public office,

21 “(III) any attempt to influence
 22 the general public, or segments there-
 23 of, with respect to elections, legislative
 24 matters, or referendums, or

1 “(IV) any direct communication
2 with a covered executive branch offi-
3 cial in an attempt to influence the of-
4 ficial actions or positions of such offi-
5 cial.

6 “(ii) EXCEPTION FOR LOCAL LEGISLA-
7 TION.—In the case of any legislation of
8 any local council or similar governing
9 body—

10 “(I) clause (i)(I) shall not apply,
11 and

12 “(II) such term shall include all
13 ordinary and necessary expenses (in-
14 cluding, but not limited to, traveling
15 expenses described in subparagraph
16 (A)(iii) and the cost of preparing tes-
17 timony) paid or incurred during the
18 taxable year in carrying on any trade
19 or business—

20 “(aa) in direct connection
21 with appearances before, submis-
22 sion of statements to, or sending
23 communications to the commit-
24 tees, or individual members, of
25 such council or body with respect

1 to legislation or proposed legisla-
2 tion of direct interest to the tax-
3 payer, or

4 “(bb) in direct connection
5 with communication of informa-
6 tion between the taxpayer and an
7 organization of which the tax-
8 payer is a member with respect
9 to any such legislation or pro-
10 posed legislation which is of di-
11 rect interest to the taxpayer and
12 to such organization, and that
13 portion of the dues so paid or in-
14 curred with respect to any orga-
15 nization of which the taxpayer is
16 a member which is attributable
17 to the expenses of the activities
18 carried on by such organization.

19 “(iii) APPLICATION TO DUES OF TAX-
20 EXEMPT ORGANIZATIONS.—Such term
21 shall include the portion of dues or other
22 similar amounts paid by the taxpayer to an
23 organization which is exempt from tax
24 under this subtitle which the organization
25 notifies the taxpayer under section

6033(e)(1)(A)(ii) is allocable to expenditures to which clause (i) applies.

“(iv) INFLUENCING LEGISLATION.—
For purposes of this subparagraph—

“(I) IN GENERAL.—The term ‘influencing legislation’ means any attempt to influence any legislation through communication with any member or employee of a legislative body, or with any government official or employee who may participate in the formulation of legislation.

“(II) LEGISLATION.—The term ‘legislation’ has the meaning given that term in section 4911(e)(2).

“(v) OTHER SPECIAL RULES.—

“(I) EXCEPTION FOR CERTAIN TAXPAYERS.—In the case of any taxpayer engaged in the trade or business of conducting activities described in clause (i), clause (i) shall not apply to expenditures of the taxpayer in conducting such activities directly on behalf of another person (but shall apply to payments by such other per-

son to the taxpayer for conducting such activities).

“(II) DE MINIMIS EXCEPTION.—

“(aa) IN GENERAL.—Clause (i) shall not apply to any in-house expenditures for any taxable year if such expenditures do not exceed \$2,000. In determining whether a taxpayer exceeds the \$2,000 limit, there shall not be taken into account overhead costs otherwise allocable to activities described in subclauses (I) and (IV) of clause (i).

“(bb) IN-HOUSE EXPENDITURES.—For purposes of provision (aa), the term ‘in-house expenditures’ means expenditures described in subclauses (I) and (IV) of clause (i) other than payments by the taxpayer to a person engaged in the trade or business of conducting activities described in clause (i) for the conduct of such activities on behalf

1 of the taxpayer, or dues or other
 2 similar amounts paid or incurred
 3 by the taxpayer which are allo-
 4 cable to activities described in
 5 clause (i).

6 “(III) EXPENSES INCURRED IN
 7 CONNECTION WITH LOBBYING AND
 8 POLITICAL ACTIVITIES.—Any amount
 9 paid or incurred for research for, or
 10 preparation, planning, or coordination
 11 of, any activity described in clause (i)
 12 shall be treated as paid or incurred in
 13 connection with such activity.

14 “(vi) COVERED EXECUTIVE BRANCH
 15 OFFICIAL.—For purposes of this subpara-
 16 graph, the term ‘covered executive branch
 17 official’ means—

18 “(I) the President,

19 “(II) the Vice President,

20 “(III) any officer or employee of
 21 the White House Office of the Execu-
 22 tive Office of the President, and the 2
 23 most senior level officers of each of
 24 the other agencies in such Executive
 25 Office, and

1 “(IV) any individual serving in a
 2 position in level I of the Executive
 3 Schedule under section 5312 of title
 4 5, United States Code, any other indi-
 5 vidual designated by the President as
 6 having Cabinet level status, and any
 7 immediate deputy of such an indi-
 8 vidual.

9 “(vii) SPECIAL RULE FOR INDIAN
 10 TRIBAL GOVERNMENTS.—For purposes of
 11 this subparagraph, an Indian tribal gov-
 12 ernment shall be treated in the same man-
 13 ner as a local council or similar governing
 14 body.

15 “(viii) CROSS REFERENCE.—

“For reporting requirements and alternative taxes related to this sub-
 section, see section 6033(e).

16 “(e) CARRYOVER OF EXCESS DEDUCTIONS.—

17 “(1) IN GENERAL.—If the aggregate deductions
 18 for any taxable year exceed the gross active income
 19 for such taxable year, the amount of the deductions
 20 specified in subsection (d) for the succeeding taxable
 21 year (determined without regard to this subsection)
 22 shall be increased by the sum of—

23 “(A) such excess, plus

1 “(B) the product of such excess and the 3-
 2 month Treasury rate for the last month of such
 3 taxable year.

4 “(2) 3-MONTH TREASURY RATE.—For purposes
 5 of paragraph (1), the 3-month Treasury rate is the
 6 rate determined by the Secretary based on the aver-
 7 age market yield (during any 1-month period se-
 8 lected by the Secretary and ending in the calendar
 9 month in which the determination is made) on out-
 10 standing marketable obligations of the United States
 11 with remaining periods to maturity of 3 months or
 12 less.”

13 (b) CONFORMING REPEALS AND REDESIGNATIONS.—

14 (1) REPEALS.—The following subchapters of
 15 chapter 1 of subtitle A and the items relating to
 16 such subchapters in the table of subchapters for
 17 such chapter 1 are repealed:

18 (A) Subchapter B (relating to computation
 19 of taxable income).

20 (B) Subchapter C (relating to corporate
 21 distributions and adjustments).

22 (C) Subchapter D (relating to deferred
 23 compensation, etc.).

24 (D) Subchapter G (relating to corporations
 25 used to avoid income tax on shareholders).

1 (E) Subchapter H (relating to banking in-
2 stitutions).

3 (F) Subchapter I (relating to natural re-
4 sources).

5 (G) Subchapter J (relating to estates,
6 trusts, beneficiaries, and decedents).

7 (H) Subchapter L (relating to insurance
8 companies).

9 (I) Subchapter M (relating to regulated in-
10 vestment companies and real estate investment
11 trusts).

12 (J) Subchapter N (relating to tax based on
13 income from sources within or without the
14 United States).

15 (K) Subchapter O (relating to gain or loss
16 on disposition of property).

17 (L) Subchapter P (relating to capital gains
18 and losses).

19 (M) Subchapter Q (relating to readjust-
20 ment of tax between years and special limita-
21 tions).

22 (N) Subchapter S (relating to tax treat-
23 ment of S corporations and their shareholders).

24 (O) Subchapter T (relating to cooperatives
25 and their patrons).

1 (P) Subchapter U (relating to designation
 2 and treatment of empowerment zones, enter-
 3 prise communities, and rural development in-
 4 vestment areas).

5 (Q) Subchapter V (relating to title 11
 6 cases).

7 (R) Subchapter W (relating to District of
 8 Columbia Enterprise Zone).

9 (2) REDESIGNATIONS.—The following sub-
 10 chapters of chapter 1 of subtitle A and the items re-
 11 lating to such subchapters in the table of sub-
 12 chapters for such chapter 1 are redesignated:

13 (A) Subchapter E (relating to accounting
 14 periods and methods of accounting) as sub-
 15 chapter B.

16 (B) Subchapter F (relating to exempt or-
 17 ganizations) as subchapter C.

18 (C) Subchapter K (relating to partners
 19 and partnerships) as subchapter D.

20 **SEC. 3. REPEAL OF ESTATE AND GIFT TAXES.**

21 Subtitle B (relating to estate, gift, and generation-
 22 skipping taxes) and the item relating to such subtitle in
 23 the table of subtitles is repealed.

1 **SEC. 4. ADDITIONAL REPEALS.**

2 Subtitles H (relating to financing of presidential elec-
 3 tion campaigns) and J (relating to coal industry health
 4 benefits) and the items relating to such subtitles in the
 5 table of subtitles are repealed.

6 **SEC. 5. EFFECTIVE DATES.**

7 (a) IN GENERAL.—Except as provided in subsection
 8 (b), the amendments made by this Act apply to taxable
 9 years beginning after December 31, 2005.

10 (b) REPEAL OF ESTATE AND GIFT TAXES.—The re-
 11 peal made by section 3 applies to estates of decedents
 12 dying, and transfers made, after December 31, 2005.

13 (c) TECHNICAL AND CONFORMING CHANGES.—The
 14 Secretary of the Treasury or the Secretary's delegate
 15 shall, as soon as practicable but in any event not later
 16 than 90 days after the date of enactment of this Act, sub-
 17 mit to the Committee on Ways and Means of the House
 18 of Representatives and the Committee on Finance of the
 19 Senate a draft of any technical and conforming changes
 20 in the Internal Revenue Code of 1986 which are necessary
 21 to reflect throughout such Code the changes in the sub-
 22 stantive provisions of law made by this Act.

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